



MEMORANDUM - OFFICE OF RECOVERY & REINVESTMENT

To: JoAnna Richard, Deputy Secretary – Wisconsin Dept. of Workforce Development

From: Chris Patton, Director *CP*

Re: Financial Review – Bay Area Workforce Development Board

Date: March 23, 2010

The Wisconsin Office of Recovery and Reinvestment (ORR) contracted with Jefferson Wells to conduct on-site reviews of non-profit entities that received Recovery Act funding from more than one federal/state program. In summary, the review was primarily financial in scope and encompassed risks and mitigating control activities related to the Entity Level Control Environment, Financial Reporting, Purchasing and Disbursements, Banking/Treasury, HR/Payroll, and Fixed Assets processes, and comprised of the following activities:

- Review of policies, procedures, and documented controls.
- Review of external auditor reports and evidence for remediation of findings.
- Inquiry of management to acquire a general understanding of entity relationships, transaction flows, and monitoring controls.
- Observation of transaction flows and control activities via process walkthroughs.
- Review of system access reports for adequate segregation of duties.
- Review for evidence of operational effectiveness of key controls, including account reconciliations, transaction authorizations, and appropriate disposition of assets.
- Review of transaction detail on a sample basis for evidence that funds have been appropriately accounted for and/or disbursed.

The reviewers met with both management and financial staff to review the activities and controls associated with Recovery Act grants or the administrative financial controls in place prior to receipt of the grant funding. The common grants that have been issued to Bay Area Workforce Development Board by various State of Wisconsin agencies include the following:

PROGRAM	STATE/FEDERAL AGENCY	AWARD AMOUNT
WIA Adult, Dislocated, and Youth Workers	DWD/DOL	\$2,121,266
National Emergency Grant	DWD/DOL	\$1,541,611

Additionally, some entities have been awarded funds directly from a federal agency and the controls and procedures associated with these awards have also been reviewed at a high level.

The on-site review of Bay Area Workforce Development Board was performed from February 15th through February 17th, 2010. The review was primarily financial in scope, and focused on the agency's capabilities to mitigate the risk of fraud, waste, and abuse through internal controls including but not limited to management oversight, segregation of duties, and restricted access.

As stated in more detail in the attachment from Jefferson Wells, the review focused on policies and procedures, past audit reports, management and board engagement, transaction flows, system access, operational effectiveness of key controls and transaction details.

Upon completion of the review and examination of the supporting documentation, no instances of fraud, waste or abuse were noted. However, the following observations were noted from the reviewers along with recommendations suggested by ORR that may assist in mitigating any risk associated with the observations:

Conflict of Interest Policy:

Observation: The agency has a Conflict of Interest policy that has been communicated to board members and employees. While all new employees must sign and disclose potential conflicts, the agency does not require its existing employees to review and sign the Conflict of Interest Policy annually. Although Board members are required to annually certify and disclose conflicts of interest, the agency has not yet updated the Board member disclosures for the 2009-2010 fiscal year.

Recommendation: As implied in the review documents, best practices would include creating a policy requiring existing employees to annually acknowledge the code of conduct and certify compliance and disclosure of potential conflicts to the agency.

Whistleblower Policy:

Observation: Though the Code of Conduct section of the Personnel Policies Manual mentions employee responsibility to report fraud, it does not provide guidance as to whom or by what means to report the concern. The current Manual stipulates that any potential incidents must be reported to the 'proper authority', and does not provide the means by which such reporting may be made anonymously.

Recommendation: The Recovery Act has very specific whistleblower provisions. To better understand the applicability of these provisions, attached is the link to the United States Office of Management and Budget's website <http://www.recovery.gov/Contact/ReportFraud/Pages/WhistleBlowerInformation.aspx>. Best practices would include creating methods of allowing anonymous reporting of fraud or abuse.

Employee Background Checks:

Observation: The agency does not conduct background checks on new hires or existing employees, and lacks a policy requiring background checks. Conducting background checks reduces the risk of fraud and abuse that may be perpetrated by new hires or existing employees transitioning to management responsibilities and/or positions having access to cash and other assets.

Recommendation: Although there may not be any requirement that a background check be conducted, best practices would include performing background checks on employees before transitioning to positions that have cash handling or senior management responsibilities.

Management Oversight:

Observation: The lack of a consistent and documented management review process increases the risk that errors and/or fraudulent activities may not be detected on a timely basis. Noted deficiencies include:

1. Journal Entries - There is no formally documented review of journal entries and supporting documentation.
2. Accounts Payable - Written evidence of review and approval is not present on upper management expense reports and credit card bills. While discussions with management indicated that all expense reporting and credit card transactions are independently reviewed by another member of upper management as part of the disbursement process, there is no signature or date evidencing the approval.
3. Payroll - Timesheets are manually entered into the Great Plains system by the Controller as part of the payroll process, but system entries are not independently verified for accuracy and propriety. While review of the employees' pay slips may detect any material improprieties, there is still an opportunity for unauthorized or inaccurate time entry to go undetected.
4. Banking/Treasury - Review of the bank reconciliations identified reconciling items including eight outstanding checks at least 6 months old, dated as early as 7/12/07, and totaling \$2,862.24. Outstanding checks are subject to escheatment after a specified time period, and could also provide a method to conceal fraudulent disbursement activity.

Recommendation: Best practices would include requiring basic management oversight and review processes to ensure accurate financial reporting and oversight. Senior management may need to review critical documents, reports, transactions and systems to minimize financial risk exposures.

As a state agency with the responsibility for ensuring that sub-recipients comply with complex requirements associated with the granting of Recovery Act funds, this information is being forwarded to your attention so that you attend to the issues that may impact your specific program. ORR expects that each agency will take the appropriate steps to mitigate fraud, waste and abuse as it relates to Recovery Act funding. For your convenience, I have enclosed a copy of the Field Review Program Worksheet, which details the scope and results of the review. A copy of this memorandum is also being provided as a courtesy to Bay Area Workforce Development Board.

As a result of this review, if you require sub-recipients to demonstrate any change of policy or procedure, please forward a copy of any correspondence to the attention of the Recovery Office.

If you have any questions, you can contact Dan Subach at (608) 266-7602 or Art Stauffacher at (608) 267-3672. Thank you for your cooperation in assisting us in assuring the public of the accountability and transparency of Recovery Act funds.

cc: James Golembeski, Bay Area Workforce Development Board